

December 3, 1999

CENTRAL MAINE POWER COMPANY
Selection of Winning Bidders for Sale
of Electricity Capacity and Energy
and Request for Extension

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

In this Order, we determine that Central Maine Power Company (CMP) will sell its entitlements to capacity and energy from its undivested generation assets and contracts to Engage Energy US, L.P. (Engage) and Select Energy, Inc. (Select).

II. BACKGROUND

A. Chapter 307 Stand-Alone Bid Process

On August 2, 1999, CMP sent to prospective bidders a request for bids (RFB) for the entitlements to capacity and energy from its undivested generation assets and contracts.¹ The entitlements are being sold by CMP pursuant to 35-A M.R.S.A. § 3204(4) and Chapter 307 of the Commission's rules.

Through the RFB, CMP solicited offers for the purchase of entitlements to the energy, capacity and certain other benefits provided by generation assets and contracts that it will not have divested as of March 1, 2000. These include power purchase agreements (PPAs) with qualifying facilities (QFs), replacement PPAs that were entered into by CMP solely to restructure PPAs with QFs, CMP's nuclear interests, CMP's entitlements to energy and capacity under the Hydro-Quebec Energy Contract and the Hydro-Quebec Firm Energy Contract (the HQ Energy Contracts), and as an option, CMP's transmission rights under the Hydro-Quebec Use Agreement and the various support agreements (the HQ transmission rights).

Pursuant to Section 6(A) of Chapter 307, CMP's entitlements were divided into separate categories: (1) hydroelectric and biomass; (2) cogeneration and waste-to-energy; (3) nuclear; (4) Hydro-Quebec; (5) market energy and capacity; and

¹ CMP subsequently revised and corrected the RFB and promptly sent all revisions and corrections to bidders.

(6) Rumford Cogeneration Company.² Proposals were allowed for any one of these categories, or for categories in combination with one another.

On November 8, 1999, CMP submitted to the Commission its determination of winning bidders resulting from the Chapter 307 RFB process. CMP selected Constellation Power Source (Constellation) as the winning bidder for categories 1, 2, 3, 5 and 6 and Select as the winning bidder for Category 4. CMP's filing included executed contracts with the winning bidders, with the contracts' effectiveness conditioned on Commission approval.

CMP's filing also included a description of its review process and the method by which it determined the winning bidders. According to CMP, pursuant to the terms of the RFB and Section 7(A) of Chapter 307, prospective bidders were required to submit bids to Warburg Dillon Read (CMP's financial advisor with respect to the RFB) by noon on October 1, 1999. Responsive bids were then checked for completeness by Warburg Dillon Read and forwarded to CMP on October 2, 1999. CMP then determined the highest bidders for each category by calculating the net present value (NPV) of each bid, in accordance with Section 6(D) of Chapter 307.

After determining the highest bidders for each category, CMP reviewed the material that accompanied each bid. In reviewing this material, CMP determined that the majority of the bids were non-conforming and that many of the bids were non-binding. CMP noted further that many of the bids had cross-category contingencies. Taking these cross-contingencies into account, CMP determined the highest combinations of bids.

CMP then contacted each of the bidders. CMP sought clarification of issues that, in its view, caused bids to be either non-binding or non-conforming. CMP described the majority of bidder concerns as relating to the provisions of the standard Entitlement Agreements as well as the nature of the entitlements being purchased.³ CMP then began negotiating revisions to the Entitlement Agreements with several of the highest bidders.

B. Standard Offer Bid Process

While CMP was conducting the Chapter 307 RFB process, the Commission was soliciting proposals to provide standard offer service to CMP

² The entitlements were, in general, grouped according to the underlying resource or fuel type. Categories 1-4 are self-explanatory. Category 5 comprises non-QF purchased power contracts entered into by CMP as part of a QF contract restructuring arrangement. Category 6 was established to isolate the Rumford Cogeneration Company PPA to facilitate a possible restructuring of the PPA.

³ The entitlements were not for a specified amount of capacity and/or energy, as may be more typical in power sale arrangements.

customers. On August 2, 1999, the Commission issued RFBs to potential standard offer providers, and on October 1, 1999, the Commission received proposals in response to the RFB. On October 25, 1999, the Commission issued an Order in Docket No. 99-111 provisionally designating standard offer providers for customers in the service territory of Maine Public Service Company (MPS) and rejecting all proposals received for the service territories of CMP and Bangor Hydro-Electric Company (BHE). The Commission also terminated the CMP and BHE standard offer RFB processes and immediately initiated a new selection process for standard offer service.

Pursuant to the new selection process, letters were sent to all bidders in the initial CMP, BHE and MPS standard offer processes and to all bidders in the utilities' concurrent Chapter 307 stand-alone auctions. The Commission structured the new selection process to allow bidders to submit proposals for standard offer prices that would not exceed those provisionally adopted for MPS, or to combine a proposal to provide standard offer service with a proposal to purchase the utility's Chapter 307 entitlements.

On November 8, 1999, the Commission received proposals in response to the new standard offer selection process. The Commission, its staff and consultants have reviewed the proposals. Our review has been conducted in conjunction with our review of the proposed winning bidders submitted by CMP in accordance with its stand-alone Chapter 307 entitlement auction.

III. DECISION

Based on our review of the proposals received for CMP's Chapter 307 entitlements, we determine the companies identified below to be the winning bidders:

<u>Category #</u>	<u>Category Type</u>	<u>Winning Bidder</u>
1.	Hydroelectric and Biomass	Engage Energy US, L.P.
2.	Cogeneration and Waste-to Energy	Engage Energy US, L.P.
3.	Nuclear Entitlements	Engage Energy US, L.P.
4.	Hydro-Quebec Energy Entitlements	Select Energy, Inc.
5.	Market Energy and Capacity	Engage Energy US, L.P.
6.	Rumford Cogeneration Company	Engage Energy US, L.P.

The levelized price of the winning Engage bid is \$.0279/kWh and the levelized price of the winning select bid is \$.0490/kWh. The estimated net present value of the revenue from these entitlement sales is \$194 million. This revenue will provide a direct benefit to ratepayers by offsetting the costs CMP continues to incur for these entitlements.

The Engage proposal to purchase CMP's Chapter 307 entitlements was coupled with a proposal by Energy Atlantic (EA) to provide standard offer service to CMP's

residential/small non-residential class.⁴ Engage presumably will use these entitlements, at least in part, to supply EA with the capacity and energy necessary to provide standard offer service. In a separate order issued today in Docket No. 99-111, we designate EA as the standard offer provider for CMP's residential/small non-residential class, based on the combined EA/Engage set of bids.

To achieve the substantial ratepayer benefits of the EA standard offer bid for a 2-year period (discussed in our separate order on standard offer service in CMP's territory, Docket No. 99-111), we accept the Engage bid for CMP's entitlements even though it will provide slightly less value than alternative bids.⁵ Our decision to accept a slightly lower amount in the CMP Chapter 307 auction, in order to obtain a standard offer price commitment for two years for CMP's residential and small non-residential customers, is entirely consistent with our statutory obligation to minimize stranded costs. As indicated in our companion order, we have accepted a two-year residential/small non-residential standard offer commitment. We have thus insulated ratepayers, for an extra year, from the risk that an administratively set standard offer for CMP's largest class of customers would lead to the creation of additional stranded costs.⁶ We have, in effect, invested the very modest amount we have foregone in the Chapter 307 sales in a hedge against what might be a much more substantial addition to stranded costs relating to the 2001-2002 standard offer period.

Finally, we note that CMP recommends rejection of all bids received for its transmission rights under the Hydro-Quebec Use Agreement and related support agreements. CMP's recommendation is based on its assessment that the Chapter 307 RFB process did not produce bids that would adequately compensate ratepayers for the value of these transmission rights. CMP indicates that it will either again attempt to sell these rights on a long-term basis after NEPOOL has resolved certain key issues related to the HQ transmission interconnection, or market its HQ transmission rights from time-to-time on a short-term basis.

We adopt CMP's recommendation to reject the bids for the HQ transmission rights. We agree that the highest bid for these rights, if accepted, would provide little additional value to ratepayers compared to the Chapter 307 entitlement sales without

⁴ Engage is a joint venture of Coastal Corporation and Westcoast Energy Inc. (both established energy companies) and is not a corporate affiliate of EA.

⁵ An alternative Engage bid coupled with an EA proposal to provide standard offer service for only one year would be the highest from among all bids received for CMP's Chapter 307 entitlements.

⁶ This risk is not imaginary. We have, for two of the three customer groups in CMP and all of BHE's customers, rejected all standard offer bids and set the standard offer price administratively. Should CMP's (or BHE's) costs for obtaining the supply needed to fulfill the standard offer obligation be higher than the price we have set – a distinct possibility – the difference would be added to ratepayers' stranded cost burden.

the transmission rights. Specifically, the highest bid would not even offset CMP's support payments for one year. In comparison, the bidder would obtain for its bid price the transmission rights (and CMP would retain the support payment obligation) through 2019.

We will require CMP to include with its Phase II-B filing in Docket No. 97-580 a report indicating its plans with respect to the HQ transmission rights and its proposed treatment of HQ stranded costs.

Accordingly, it is

ORDERED

1. The executed Hydro Quebec Entitlement Agreement between Central Maine Power Company and Select Energy, Inc., as submitted in Central Maine Power Company's November 8, 1999 filing in this proceeding shall become effective as of the date of this Order.

2. Central Maine Power Company shall execute Entitlement Agreements with Engage Energy US, L.P. for its Chapter 307 entitlements in categories 1, 2, 3, 5 and 6 consistent with the Engage Energy US, L.P. proposal submitted on November 8, 1999, and clarified by letter from Engage Energy US, L.D. dated November 29, 1999.

3. Central Maine Power Company shall, in its Phase II-B filing in Docket No. 98-580, notify the Commission of its plans for the use of its rights under the Hydro-Quebec Use Agreement.

Dated at Augusta, Maine, this 3rd day of December, 1999.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR:

Welch
Nugent
Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.